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SUBJECT: Wal-Mart Signs Collective Agreement in Shenzhen - A Model for Foreign Enterprises in China?

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¶1. (SBU) Summary: Wal-Mart just wanted a good contract that burnished its reputation as a good corporate citizen. What it got, according to the firm's senior human resources (HR) manager, was one that the All China Federation of Trade Unions (ACFTU) hopes will be a model for foreign enterprises throughout China. The HR manager said the negotiations in Shenzhen were not confrontational and pointed out that the FTU there played an active role throughout the process. The contract sets a base for compensation and benefits for all employees at the firm's Shenzhen stores, and its terms exceed legal requirements. The most contentious issue was the level of annual salary increases. End summary.

ACTU Wants to Wal-Mart to be an Example

¶2. (SBU) ACFTU officials termed the July 24 collective contract that Wal-Mart signed with union representatives from its Shenzhen stores "a model for foreign companies in China." The contract was one of four signed by Wal-Mart on a city-by-city basis in July. The company also signed deals in Shenyang, Fuzhou and Quanzhou. Wal-Mart has indicated it will sign contracts in all the Chinese cities where it operates within two months. The Shenzhen negotiations received special attention from ACFTU national headquarters in Beijing. Clara Wang, Wal-Mart (China) Senior Human Resources Director, told us that ACFTU Vice Chair Xu Deming visited Shenzhen in the early stages of the negotiations to offer guidance; the ACFTU's new Collective Bargaining Department followed the negotiations closely. The ACFTU indicated early on that it hoped the contract would be a model that would help achieve its goal of expanding collective contracts to cover 60 percent of foreign enterprises in China. Wang said that some cities have even more ambitious goals, noting that Quanzhou seeks to expand collective bargaining to 100 percent of foreign enterprises in the city. She said the city-by-city contracts vary little except in the level of wage increases, which are based primarily on local conditions.

A Collaborative Process...

¶3. (SBU) Wang described the negotiating process as more collaborative than adversarial. She explained that the initial union position was not unrealistic. The goal for both sides in the year-long discussion was a win-win solution, she said. However, Wang pointed out that the delay in reaching an agreement was due to the need to wait for clarification of the China's new Labor Contract Law; the real negotiations lasted only two months.

14. (SBU) Shenzhen's ACFTU office played a very active role in the negotiations, according to Wang. The union negotiating team was composed of ten chairmen of unions at Wal-Mart's Shenzhen stores. The head of Shenzhen FTU's legal department attended all the negotiating sessions in an advisory role. Wang told us that in some ways it was a "three-way negotiation," with the ACFTU offering advice to both Wal-Mart and the union team.

A Base That Exceeds the Legal Minimum

15. (SBU) Wang said that the agreed contract establishes a base for compensation and benefits for all employees in Wal-Mart's Shenzhen stores. Employees will continue to have individual contracts that often have more favorable terms for the employee in some areas than the collective agreement. She told us that Wal-Mart had to educate its workers on how the collective agreement worked because many believed that they would lose benefits they already had if the terms of their individual contracts were more favorable. When the employees voted on the contract, Wang said, some opposed it because they didn't understand that it wouldn't reduce the benefits they already enjoyed.

16. (SBU) Annual salary increases were the most contentious issue in the negotiations. Wang said the unions' demands in this area were high but not unreasonable. Wal-Mart's management felt the need to negotiate lower increases in part because it knew the terms of the Shenzhen contract would become a starting point for negotiations in

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other cities. The final agreement brought minimum increases based on forecasts of local wage conditions in the retail sector, cost of living and company performance. The increases could be even higher if the forecasts prove too low. Wang pointed out that the contract exceeded Wal-Mart's legal obligations because there is no legal requirement for annual wage increases.

A Good Deal for Wal-Mart

17. (SBU) When asked if Wal-Mart's Shenzhen contract would make a good model for other foreign enterprises in China, Wang replied, "We don't care" as it was a good deal for Wal-Mart and that's all that mattered. She emphasized that the process had helped Wal-Mart maintain good relations with its employees, the government and ACFTU, reinforcing its reputation as a good corporate citizen in China. However, she noted that Wal-Mart would be prepared to share its experiences with other foreign companies in the process of collective negotiation or thinking about starting such negotiations.

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